

December 16, 2002

The Honorable Frank H. Murkowski, Governor
Members of the Alaska State Legislature
Teachers' Retirement Board
Alaska State Pension Investment Board
Employers and Plan Members of the System

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Teachers' Retirement System (TRS) (System) for the fiscal year ended June 30, 2002.

This report is intended to provide comprehensive information on the financial operations of the System for the year. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System for the year ended June 30, 2002. All disclosures necessary to enable the reader to gain an understanding of the System's activities have been included.

For financial reporting purposes, the System utilizes Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Assets of the System are presented at fair value. The actuarial value of assets and the actuarial accrued liability are presented in the required supplementary information following the notes to the financial statements.

The FY 2002 CAFR is divided into five sections:

- **Introductory Section**, which contains this letter of transmittal, the administrative organization of the System, and a list of the members serving on the Teachers' Retirement Board;
- **Financial Section**, which contains the management's discussion and analysis (MD&A) (new disclosure information), the Independent Auditors' Report, the basic financial statements, required supplementary information, and additional information;
- **Investment Section**, which contains a message from the Chair of the Alaska State Pension Investment Board (ASPIB), a list of members serving on the ASPIB, a report on investment activity, investment results, and various investment schedules;
- **Actuarial Section**, which contains the Actuarial Certification letter and the results of the most current (June 30, 2001) annual actuarial valuation; and
- **Statistical Section**, which includes graphs and tables of significant data.

The Alaska TRS was established in 1955 to provide pension and postemployment healthcare benefits for teachers and other eligible participants. Normal service, survivor, and disability benefits are available to all members who attain the age and service requirements of the System.

	TRS		
	FY02	FY01	FY00
Net Assets (millions)	\$3,689.0	4,086.9	4,484.9
Participating Employers	57	60	60

Reporting Entity

The System is considered a component unit of the State of Alaska for financial reporting purposes. Because of the closeness of the System's relationship to the State, it is included in the State of Alaska CAFR as a blended component unit.

The Commissioner of the Department of Administration, appointed by the Governor, is responsible for administering the System. In order to meet the statutory requirements of administering the System, the Commissioner appoints the Director of the Division of Retirement and Benefits. The Director is responsible for the daily operations of the System.

The Teachers' Retirement Board prescribes policies and regulations, hears appeals, and approves employers' contribution rates prepared by the System's independent actuary.

The ASPIB has statutory oversight of the System's investments and the authority to invest the System's monies. Actual investing is performed by external investment firms and investment officers of the Department of Revenue, Treasury Division, listed in the Investment Section of this report. The Treasury Division is responsible for carrying out investment policies established by ASPIB.

Major Initiatives

The System continues to make progress on completing several on-going projects. Most of these efforts focused on improvements in technology, improving methods for members to obtain information about the System and their benefits, and continued compliance with accounting requirements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) as applicable in the circumstances.

During FY 2002, the System granted a discretionary cost-of-living increase, along with the statutorily required automatic cost-of-living increase.

Independent Audit

The System's annual audit was conducted by the independent accounting firm of KPMG LLP. The auditors' report on the basic financial statements is included in the Financial Section of this report.

Actuarial Valuation

An actuarial valuation of the System is performed annually. An assumption experience study is performed at least every other year. The actuarial firm, Mercer Human Resource Consulting, completed the actuarial reviews and valuations as of June 30, 2001, and served as technical advisor to the System. Actuarial certifications and supporting statistics are included in the Actuarial and Statistical Sections of this report.

Professional Services

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the System. A list of consultants is provided in the Introductory Section with the exception of investment professional consultants, who are listed in the Investment Section of this report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Alaska Teachers' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2001. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

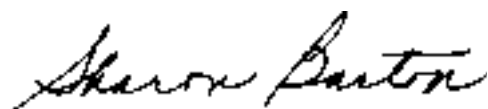
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report is made possible by the dedicated service of the staff of the System. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the system.

The report is being mailed to all employer members of the System. They form the link between the System and the membership. Their cooperation contributes significantly to the success of the System. We hope the employers and their employees find this report informative.

We would like to take this opportunity to express our gratitude to the Teachers' Retirement Board, the Alaska State Pension Investment Board, the staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the System.



Sharon Barton
Acting Commissioner

Respectfully submitted,



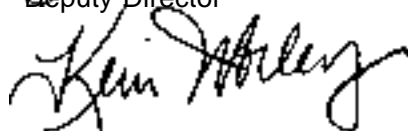
Guy Bell
Director



Janet L. Parker
Deputy Director



Anselm Staack, CPA, JD
Chief Financial Officer



Kevin Worley, CPA
Defined Benefits Accounting Supervisor

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alaska Teachers' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

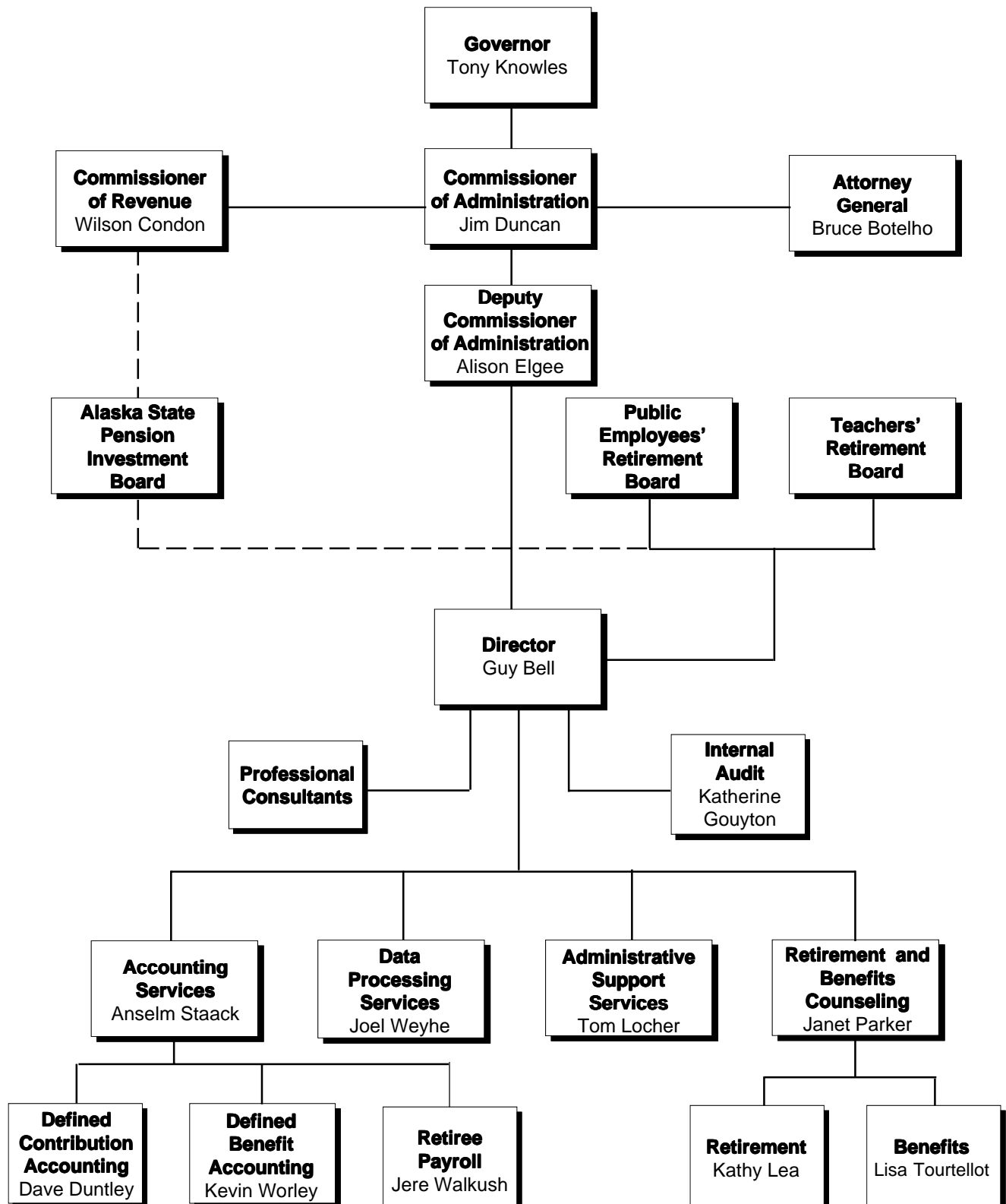
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Timothy A. O'Connell
President

Jeffrey L. Esser
Executive Director

ORGANIZATION CHART
as of June 30, 2002



Section Responsibilities

The **Retirement Section** is responsible for providing comprehensive retirement counseling to the participating members and employers in the plan. The section appoints members to retirement benefits and maintains benefit payment information.

The **Benefits Section** is responsible for the administration of group health, disability, and life insurance. This section provides benefits counseling and plan change information to the membership.

The **Defined Benefit Accounting Section** is responsible for maintaining the employee and employer records and accounts in each of the defined benefit plans administered by the Division, producing financial statements and reports, and assuring compliance with the Internal Revenue Service requirements for defined benefit plans.

The **Defined Contribution Accounting Section** is responsible for accounting, plan operations, and financial activities related to the defined contribution plan systems administered by the Division.

The **Data Processing Services Section** supports the information systems the Systems use. Responsibilities include planning, development, data base design, programming, and operational support of the data processing systems, including the Local Area Network.

The **Administrative Support Services Section** is responsible for budget preparation, fiscal management of appropriations, procurement of professional services, supplies, and equipment. The section manages the Systems' record center containing the members' physical records and performs other administrative functions, such as legislative tracking and personnel management.

The **Retiree Payroll Section** is responsible for issuing monthly and on demand retirement benefit payments to eligible retirees or their beneficiaries. The section maintains accurate records for reporting benefit recipient tax statements and reporting and paying withheld income taxes, garnishments, and IRS levies.

PROFESSIONAL CONSULTANTS	
Consulting Actuary Mercer Human Resource Consulting <i>Seattle, Washington</i>	Legal Counsel John Gaguine Kathleen Strasbaugh Assistant Attorney General <i>Juneau, Alaska</i>
Independent Auditors KPMG LLP <i>Anchorage, Alaska</i>	Legal Counsel - Retirement Boards Wohlforth, Vassar, Johnson & Brecht <i>Anchorage, Alaska</i>
Benefits Consultant Deloitte & Touche, LLP <i>Minneapolis, Minnesota</i>	Consulting Physicians Kim Smith, M.D. William Cole, M.D. <i>Juneau, Alaska</i>
Third Party Health Claim Administrator Aetna Life Insurance Company <i>Walnut Creek, California</i>	

A list of external money managers and consultants for the System can be found on pages 46-47, and the Schedule of Investment Management Fees on pages 56-57.

TEACHERS' RETIREMENT BOARD



Elizabeth Briggs Hertz, Chair

Term Expires: January 31, 2003

Elizabeth “Betty” Briggs Hertz arrived in Alaska in 1967. Ms. Hertz taught for 23 years in the Anchorage School District and retired in 1990. During her teaching career, she taught at West Anchorage High School and Steller Secondary School. Ms. Hertz has also held a variety of positions in the Anchorage Education Association. Since retirement, Ms. Hertz has taught English classes at the University of Alaska-Anchorage and management courses at the Alaska Pacific University. She and her husband own Windemere Consultants, a management consulting business specializing in interpersonal communications and career development planning.



Gerald Patterson, Vice Chair

Term Expires: June 30, 2005

Gerald “Jerry” Patterson began his Alaskan teaching career in Juneau in 1971 as a reading specialist but spent most of his time teaching fifth grade. He remained in the same school, Auke Bay Elementary, until his retirement in 1990 and currently resides in Juneau with his wife Carol, also a retired teacher. Mr. Patterson is a graduate of Western Washington State College where he received both his bachelors and masters degrees. During his teaching career, he was active with the Juneau Education Association, holding a variety of positions, and remains active with two retired teacher groups. In his spare time, Mr. Patterson enjoys traveling and taking advantage of the many outdoor opportunities available in Juneau.



Charlie Arteaga

Term Expires: January 31, 2005

Charlie Arteaga has been an Alaskan resident for 33 years. He resides in Ketchikan. He received his Bachelor's in Education at Arizona State University and his Masters in Counseling at the University of Oregon. He was an educator with the Ketchikan Gateway Borough School District until 1996.

Mr. Arteaga was appointed to the Teachers' Retirement Board by Governor Tony Knowles. He is now employed in other sectors of public service and tourism. He intends to remain an active Alaskan citizen.



Gayle W. Harbo

Term Expires: June 30, 2005

Gayle Harbo arrived in Alaska in 1957, married Sam Harbo in 1958, and lived in Cold Bay, Juneau and Nome before settling in Fairbanks in 1962. She graduated from North Carolina State University in Raleigh with a BS in Mathematics and earned a Master of Arts in Teaching at the University of Alaska-Fairbanks. She taught at Lathrop High School for most of her twenty-five years in the Fairbanks District and served as coordinator of the school's Advanced Placement Program and on the District's Curriculum Committee. She worked on committees which wrote the evaluation documents used by the district and served on several budget committees. Since retiring in 1993, she has enjoyed traveling with her husband and assisting him with several building projects for each of their four children. She loves her home and garden and the opportunity to take care of any or all of their seven grandchildren.



Robert Salo

Term Expires: January 31, 2004

Robert Salo first began teaching in Alaska in 1965. Before Mr. Salo retired in 1990 he spent 22 years teaching Physical Education and 3 years as Kenai Central High School's assistant principal. Mr. Salo's wife, Judith, and his daughter, Holly, are also teachers. He resides in Kenai.

Mr. Salo has a long involvement with teaching and has served, in a leadership capacity, on many committees and boards including NEA, American Alliance of Health, National Interscholastic Association of Athletic Directors and Kenai Peninsula School Administrators Association.